

TITLE V  
*INDIVIDUAL*

CHAPTER 38  
ADMINISTRATION

[Prior to 12/17/86, Revenue Department[730]]

**701—38.1(422) Definitions.**

**38.1(1)** When the word “*department*” appears herein, the word refers to and is synonymous with the “Iowa department of revenue and finance”; the word “*director*” is the “director of revenue and finance” or the director’s authorized assistants and employees.

The administration of the individual income tax is a responsibility of the department. The department is charged with the administration of the individual income tax, fiduciary tax, withholding of tax and individual estimate declarations, subject always to the rules, regulations and direction of the director.

**38.1(2)** The term “*computed tax*” means the amount of tax remaining before deductions of personal exemption and credit for dependents and before the computation of the school district surtax.

**38.1(3)** The word “*taxpayer*” includes under this division:

- a. Every resident of the state of Iowa.
- b. Every part-year resident of the state of Iowa.
- c. Every estate and trust resident of this state whose income is in whole or in part subject to the state income tax.
- d. Nonresident individuals, estates and trusts (those with a situs outside of Iowa) receiving taxable income from property in Iowa or from business, trade, or profession or occupation carried on in this state.

**38.1(4)** The term “*fiduciary*” shall mean one who acts in place of or for the benefit of another in accordance with the meaning of the term defined in Iowa Code section 422.4. The term includes, but is not limited to, the executor or administrator of an estate, a trustee, guardian or conservator, or a receiver.

**38.1(5)** The term “*employer*” means those who have a right to exercise control as to the performance of services as defined in Iowa Code section 422.4.

**38.1(6)** The term “*employee*” means and includes every individual who is a resident, or who is domiciled in Iowa, or any nonresident, or corporation performing services within the state of Iowa, the performance of which services constitutes, establishes, and determines the relationship between the parties as that of employer and employee. This includes officers of corporations, individuals, including elected officials performing services for the United States government or any agency or instrumentality thereof, or the state of Iowa, or any county, city, municipality or political subdivision thereof.

**38.1(7)** The term “*wages*” means any remuneration for services performed by an employee for an employer, including the cash value of all such remuneration paid in any medium or form other than cash. Wages have the same meaning as provided by the Internal Revenue Code as made applicable to Iowa income tax.

Wages subject to Iowa income tax withholding consist of all remuneration, whether in cash or other form, paid to an employee for services performed for the employer. For this purpose, the word “wages” includes all types of employee compensation, such as salaries, fees, bonuses, and commissions. It is immaterial whether payments are based on the hour, day, week, month, year or on a piecework or percentage plan.

Wages paid in any form other than money are measured by the fair market value of the goods, lodging, meals, or other consideration given in payment for services.

Where wages are paid in property other than money, the employer should make necessary arrangements to ensure that the tax is available for payment. Vacation allowances and back pay, including retroactive wage increases, are taxed as ordinary wages.

Tips or gratuities paid directly to an employee by a customer and not accounted for to the employer are not subject to withholding. However, the recipients must include them in their personal income tax returns.

Amounts paid specifically, either as advances or reimbursements, for traveling or other bona fide ordinary and necessary expenses incurred or reasonably expected to be incurred in the business of the employer are not wages and are not subject to these taxes. Traveling and other reimbursed expenses must be identified either by making a separate payment or by specifically indicating the separate amounts where both wages and expense allowance are combined in a single payment.

Wages are to be considered as paid when they are actually paid or when they are constructively paid, that is, when they are credited to the account of, or set apart for the wage earner so that they may be drawn upon by the wage earner at any time, although not then actually reduced to possession.

**38.1(8)** The term “*responsible party*” shall have the same meaning as withholding agent as defined in Iowa Code section 422.4. A withholding agent includes an officer or employee of a corporation or association, or a member or employee of a partnership, who has the responsibility to perform acts covered by Iowa Code section 422.16. As of July 1, 1993, withholding agent also includes a member or a manager of a limited liability company who has the responsibility to perform acts covered by Iowa Code section 422.16 as amended by 1994 Iowa Acts, Senate File 2057. An individual who is a “responsible party” by law cannot shift that responsibility to someone else by attempting to delegate the responsibility to another corporate officer or employee.

Every business which is an employer must have some person who has the duty of withholding and paying those taxes which the law requires an employer to withhold and pay. There may be more than one person, but there must be at least one. The fact that any individual may not have been the only responsible person would not excuse that person from the responsibility of paying withholding taxes. Any withholding agent as defined in this subrule, who knowingly violates the statutory provisions of Iowa Code section 422.16, will be held liable for the tax due: *Pacific National Insurance Co. v. United States*, 1970, 9th Cir., 422 F.2d 26, cert. denied, 398 U.S. 937; *R. E. Dougherty v. United States*, 1971, 327 F. Supp. 202; *Gefen v. United States*, 5th Cir. 1968, 400 F.2d 476.

**38.1(9)** *Domicile*. Rescinded IAB 5/10/95, effective 6/14/95.

This rule is intended to implement Iowa Code sections 422.3, 422.4 and 422.16.

## **701—38.2(422) Statute of limitations.**

### **38.2(1) *Periods of audit.***

*a.* The department has three years after a return has been filed or three years after the return became due, including any extensions of time for filing, whichever time is the later, to determine whether any additional tax other than that shown on the return is due and owing. This three-year statute of limitations does not apply in the instances specified in paragraphs “*b*,” “*c*,” “*d*,” “*e*,” “*f*” and “*g*.”

*b.* If a taxpayer fails to include in the taxpayer’s return items of gross income as defined in the Internal Revenue Code as amended, as will under that Code extend the statute of limitations for federal tax purposes to six years, the correct amount of tax due may be determined by the department within six years from the time the return is filed, or within six years after the return became due, including any extensions of time for filing, whichever time is the later.

c. If a taxpayer files a false or fraudulent return with intent to evade tax, the correct amount of tax due may be determined by the department at any time after the return has been filed.

d. If a taxpayer fails to file a return, the periods of limitations so specified in Iowa Code section 422.25 do not begin to run until the return is filed with the department.

e. While the burden of proof of additional tax owing under the six-year period or the unlimited period is upon the department, a prima facie case of omission of income, or of making a false or fraudulent return, shall be made upon a showing of a federal audit of the same income, a determination by federal authorities that the taxpayer omitted items of gross income or made a false or fraudulent return, and the payment by the taxpayer of the amount claimed by the federal government to be the correct tax or the admission by the taxpayer to the federal government of liability for that amount.

f. In addition to the periods of limitation set forth in paragraph "a," "b," "c," "d," or "e," the department has six months after notification by the taxpayer of the final disposition of any matter between the taxpayer and the Internal Revenue Service with respect to any particular tax year to make an examination and determination. Final disposition of any matter between the taxpayer and the Internal Revenue Service triggers the extension of the statute of limitations for the department to make an examination and determination, and the extension runs until six months after the department receives notification and a copy of the federal document showing the final disposition or final federal adjustments from the taxpayer. *Van Dyke v. Iowa Department of Revenue and Finance*, 547 N.W.2d 1. This examination and determination is limited to those matters between the taxpayer and the Internal Revenue Service which affect Iowa taxable income. *Kelly-Springfield Tire Co. v. Iowa State Board of Tax Review*, 414 N.W.2d 113 (Iowa 1987). The notification shall be in writing in any form sufficient to inform the department of final disposition, and attached to the notification shall be a photo reproduction or carbon copy of the federal document which shows the final disposition and any schedules necessary to explain the federal adjustments. The notification and copy of the federal document shall be mailed, under separate cover, to the Examination Section, Compliance Division, P.O. Box 10456, Des Moines, Iowa 50306. Any notification and copy of the federal document which is included in, made a part of, or mailed with a current year Iowa individual income tax return will not be considered as proper notification for the purposes of beginning the running of the six-month period.

g. In lieu of the period of limitation for any prior year for which an overpayment of tax or an elimination or reduction of an underpayment of tax due for that prior year results from the carryback to such prior year of a net operating loss or net capital loss, the period shall be the period of limitation for the taxable year of the net operating loss or net capital loss which results in such carryback.

**38.2(2) Waiver of statute of limitations.** If the taxpayer files with the department a request to waive the period of limitation, the limit of time for audit of the taxpayer's return may thereby be extended for a designated period. If the request for extending the period of limitation is approved, the additional tax or refund carries a limitation of 36 months' interest from the due date that the return was required to be filed up to and including the expiration of the waiver agreement.

In the event that an assessed deficiency or overpayment is not paid within the waiver period, interest accrues from the date of expiration of the waiver agreement to the date of payment.

The limitation of 36 months of interest described above does not apply to waiver of statute of limitations agreements where the extended periods start on or after July 1, 1989. In the case of these agreements, interest accrues through the extended periods.

**38.2(3) Amended returns filed within 60 days of the expiration of the statute of limitations for assessment.** If a taxpayer files an amended return on or after April 1, 1995, within 60 days prior to the expiration of the statute of limitations for assessment, the department has 60 days from the date the amended return is received to issue an assessment for applicable tax, interest, or penalty.

This rule is intended to implement Iowa Code section 422.25.

**701—38.3(422) Retention of records.**

**38.3(1)** Every individual subject to the tax imposed by Iowa Code section 422.5 (whether or not the individual incurs liability for the tax) and every withholding agent subject to the provisions of Iowa Code section 422.16 shall retain those books and records as required by Section 6001 of the Internal Revenue Code and federal income tax regulation 1.6001-1(e) including the federal income tax return and all supporting federal schedules. For taxpayers using an electronic data interchange process or technology also see 701—subrule 11.4(4).

**38.3(2)** In addition, records relating to other deductions or additions to federal adjusted income shall be retained so long as the contents may be material in the administration of the Iowa Code under the statutes of limitations for audit specified in section 422.25.

This rule is intended to implement Iowa Code sections 422.25 and 422.70.

**701—38.4(422) Authority for deductions.** Whether and to what extent deductions shall be allowed depends upon specific legislative acts, and only where there is a clear provision can any particular deduction be allowed. Therefore, a deduction will be allowed only if the taxpayer can establish the validity and correctness of such deduction.

This rule is intended to implement Iowa Code sections 422.7 and 422.9.

**701—38.5(422) Jeopardy assessments.**

**38.5(1)** A jeopardy assessment may be made in a case where a return has been filed, and the director believes for any reason that collection of the tax will be jeopardized by delay; or in a case where a taxpayer fails to file a return, whether or not formally called upon to do so, in which case the department is authorized to estimate the income of the taxpayer upon the basis of available information, and to add penalty and interest.

**38.5(2)** A jeopardy assessment is due and payable when the notice of the assessment is served upon the taxpayer. Proceedings to enforce the payment of the assessment by seizure or sale of any property of the taxpayer may be instituted immediately.

This rule is intended to implement Iowa Code section 422.30.

**701—38.6(422) Information deemed confidential.** Iowa Code sections 422.20 and 422.72 apply generally to the director, deputies, auditors, agents, present or former officers and employees of the department. Disclosure of information from a taxpayer's filed return or report or other confidential state information by department of revenue and finance personnel to a third person is prohibited under the above sections. Other persons having acquired information disclosed in a taxpayer's filed return or report or other confidential state information will be bound by the same rules of secrecy under these sections as any member of the department and will be subject to the same penalties for violations as provided by law. See rule 701—6.3(17A).

This rule is intended to implement Iowa Code sections 422.16, 422.20, and 422.72.

**701—38.7(422) Power of attorney.** For information regarding power of attorney, see rule 701—7.34(421).

**701—38.8(422) Delegations to audit and examine.** Pursuant to statutory authority the director delegates to the director of the audit and compliance division the power to examine returns and make audits; and to determine the correct amount of tax due, subject to review by or appeal to the director. The power so delegated may further be delegated by the director of the audit and compliance division to auditors, agents, examiners, clerks, and employees of the audit and compliance division as the director shall designate.

This rule is intended to implement Iowa Code section 422.70.

**701—38.9(422) Bonding procedure.** The director may, when necessary and advisable in order to secure the collection of the tax required to be deducted and withheld or the amount actually deducted, whichever is greater, require an employer or withholding agent to file with the director a bond issued by a surety company authorized to conduct business in Iowa and approved by the insurance commissioner as to solvency and responsibility in an amount the director may fix, or in lieu of bond, securities approved by the director in an amount the director may prescribe and keep in the custody of the department. Pursuant to the statutory authorization in Iowa Code section 422.16, the director has determined that the following procedures will be instituted with regard to bonds. However, the bonding procedures were applicable only to nonresident employers or withholding agents for withholding taxes due prior to January 1, 1987. The penalty for failure of a withholding agent to file a bond, described in subrule 38.9(4) applies to taxes required to be withheld on or after January 1, 1990.

**38.9(1) When required.**

*a. New applications by withholding agents.* A new withholding agent applicant will be requested to post a bond or security if (1) it is determined upon a complete investigation of the applicant's financial status that the applicant would be unable to timely remit the tax, or (2) the new applicant held a withholding agent's identification number for a prior business and the remittance record of the tax under the prior identification number falls within one of the conditions in paragraph "b" below, or (3) the department experienced collection problems while the applicant was engaged in business under the prior identification number.

*b. Existing withholding agents.* Existing withholding agents shall be requested to post a bond or security when they have had two or more delinquencies in remitting the withholding tax during the last 24 months if filing returns on a quarterly basis or have had four or more delinquencies during the last 24 months if filing returns on a monthly basis. The simultaneous late filing of the return and the late payment of the tax will count as one delinquency. However, the late filing of the return or the late payment of the tax will not count as a delinquency if the withholding agent can satisfy one of the conditions set forth in Iowa Code section 421.27.

*c. Waiver of bond.* If a withholding agent has been requested to post a bond or security or if a withholding agent applicant has been requested to post a bond or security, upon the filing of the bond or security, if the withholding agent maintains a good filing record for a period of two years, the withholding agent may request that the department waive the continued bond or security requirement.

**38.9(2) Type of security or bond.** When it is determined that a withholding agent or withholding agent applicant is required to post collateral to secure the collection of the withholding tax, the following types of collateral will be considered as sufficient: surety bonds, securities or certificates of deposit. When the withholding agent is a corporation, an officer or employee of the corporation may assume personal liability as security for the payment of the withholding tax. The officer or employee will be evaluated as provided in 38.9(1) "a" as if the officer or employee applied as the withholding agent as an individual.

**38.9(3) Amount of bond or security.** When it is determined that a withholding agent or withholding agent applicant is required to post a bond or securities, the following guidelines will be used to determine the amount of the bond, unless the facts warrant a greater amount: If the withholding agent or applicant will be or is a monthly depositor, a bond or securities in an amount sufficient to cover five months' withholding tax liability will be required. If the applicant or withholding agent will be or is a quarterly filer, the bond or securities which will be required is an amount sufficient to cover nine months or three quarters of tax liability.

**38.9(4) Penalty for failure of a withholding agent to file bond.** If the withholding agent is requested by the department to file a bond to secure collection of the state withholding tax and fails to file the bond, the withholding agent is subject to a penalty. The penalty for failure to file a bond is 15 percent of the tax the withholding agent is required to withhold on an annual basis. However, the penalty cannot exceed \$5000.

This rule is intended to implement Iowa Code section 422.16.

**701—38.10(422) Indexation.** Acts of the Sixty-ninth General Assembly, 1981 Regular Session, chapter 132, and Iowa Code section 422.5, provide for the adjustment of the tax brackets and civil service annuity exclusion by a cumulative inflation factor to be determined by the director.

**38.10(1)** The cumulative inflation factor for tax years beginning on or after January 1, 1979, and on or before December 31, 1979, was 102.3 percent.

**38.10(2)** The cumulative inflation factor for tax years beginning on or after January 1, 1980, and on or before December 31, 1981, is 102.3 percent since the unobligated state general fund balance as of June 30, 1980, did not equal or exceed \$60 million.

**38.10(3)** The cumulative inflation factor for tax years beginning on or after January 1, 1982, and before December 31, 1982, was 102.3 percent since the unobligated state general fund balance as of June 30, 1981, did not equal or exceed \$60 million.

**38.10(4)** The cumulative inflation factor for tax years beginning on or after January 1, 1983, and before December 31, 1983, was 102.3 percent since the unobligated state general fund balance as of June 30, 1982, did not equal or exceed \$60 million.

**38.10(5)** The cumulative inflation factor for tax years beginning on or after January 1, 1984, and before December 31, 1984, was 102.3 percent since the unobligated state general fund balance as of June 30, 1983, did not equal or exceed \$60 million.

**38.10(6)** The cumulative inflation factor for tax years beginning on or after January 1, 1985, and before December 31, 1985, was 102.3 percent since the unobligated state general fund balance as of June 30, 1984, did not equal or exceed \$60 million.

**38.10(7)** The cumulative inflation factor for tax years beginning on or after January 1, 1986, and before December 31, 1986, was 102.3 percent since the unobligated state general fund balance as of June 30, 1985, did not equal or exceed \$60 million.

**38.10(8)** The cumulative inflation factor for tax years beginning on or after January 1, 1987, and before December 31, 1987, was 102.3 percent. However, the cumulative inflation factor was not applicable to the tax rates for tax years beginning in 1987 which were authorized in the special session of the General Assembly which was held in October 1987.

**38.10(9)** The cumulative inflation factor for tax years beginning in the 1988 calendar year is 100 percent. Therefore, there is no indexing of the tax rates and brackets that are in effect for tax years beginning in 1988 that were initially applicable for tax years beginning in 1987. In addition, there is no indexing of the civil service annuity exclusion amounts that are effective for tax years beginning in 1988. The civil service annuity exclusion is described in rule 701—40.4(422).

**38.10(10)** The cumulative inflation factor for tax years beginning in the 1989 calendar year is 101.6 percent. Therefore, the income tax brackets in the income tax rate schedule were increased by 1.6 percent for 1989. The civil service annuity exclusion described in rule 701—40.4(422) was repealed as of January 1, 1989, for tax years beginning on or after that date.

**38.10(11)** The cumulative inflation factor for tax years beginning in the 1990 calendar year is 103.8 percent. Therefore, the income tax brackets in the income tax rate schedule were increased by 2.2 percent from the bracket amounts in effect for 1989. The standard deduction amounts were also indexed for inflation by 2.2 percent, so the amounts in effect for 1990 were \$1,260 for taxpayers filing as single individuals and for married taxpayers filing separate returns and filing separately on the combined return forms and \$3,100 for taxpayers filing jointly, filing as heads of household, and filing as qualifying widow(er).

**38.10(12)** The cumulative inflation factor for tax years beginning in the 1991 calendar year is 105.9 percent. Therefore, the income tax brackets in the tax rate schedule and the standard deduction amounts were increased by 2.1 percent from tax bracket amounts and standard deduction amounts in effect for 1990. Thus, the standard deduction amounts for 1991 were \$1,280 for taxpayers using filing status 1, 3 or 4 and \$3,160 for taxpayers using filing status 2, 5 or 6.

**38.10(13)** The cumulative inflation factor for tax years beginning in the 1992 calendar year is 105.9 percent, which is the same factor as was in effect for tax years beginning in 1991. There was no indexation of the brackets in the tax rate schedule for 1992 because the unobligated state general fund balance on June 30, 1991, was less than \$60 million. However, the standard deduction amounts for 1992 were increased by approximately 2.1 percent from the amounts in effect for 1991. Thus, the standard deduction amounts for 1992 were \$1,310 for taxpayers using filing status 1, 3 or 4 and \$3,220 for taxpayers using filing status 2, 5 or 6.

**38.10(14)** The cumulative inflation factor for tax years beginning in the 1993 calendar year was 105.9 percent, which is the same factor as was in effect for 1992. There was no indexation of the brackets in the tax rate schedule for 1993 because the unobligated state general fund balance on June 30, 1992, was less than \$60 million. However, the standard deduction amounts for 1993 are increased by approximately 1.6 percent from the amounts in effect for 1992. Thus, the standard deduction amounts for 1993 were \$1,330 for taxpayers using filing status 1, 3 or 4 and \$3,270 for taxpayers using filing status 2, 5 or 6.

**38.10(15)** The cumulative inflation factor for tax years beginning in the 1994 calendar year was 105.9 percent, which is the same factor as was in effect for 1993. There was no indexation of the brackets in the tax rate schedule for 1994 because the unobligated state general fund balance on June 30, 1993, was less than \$60 million. However, the standard deduction amounts for 1994 were increased to \$1,340 for taxpayers using filing status 1, 3 or 4 and to \$3,310 for taxpayers using filing status 2, 5 or 6. The increases are approximately 1.13 percent from the amounts in 1993, but the increases are affected by rounding of the increased amounts to the nearest ten-dollar amount.

**38.10(16)** The cumulative inflation factor for tax years beginning in the 1995 calendar year was 107 percent, which is an increase of 1.01 percent from the factor in effect for 1994. There was indexation of the brackets in the tax rate schedule for 1995 because the unobligated state general fund balance on June 30, 1994, was at least \$60 million. The standard deduction amounts for 1995 were increased to \$1,360 for taxpayers using filing status 1, 3, or 4 and to \$3,350 for taxpayers using filing status 2, 5, or 6. The increases are approximately 1.1 percent greater than the amounts for 1994, but the increases are affected by rounding of the increased amounts to the nearest ten-dollar amount.

**38.10(17)** The cumulative inflation factor for tax years beginning in the 1996 calendar year was 108.7 percent. There was indexation of the brackets in the tax rate schedule for 1996 because the unobligated state general fund balance on June 30, 1995, was at least \$60 million. Note that the increase in the cumulative inflation factor represents indexing for 100 percent of inflation computed from the gross domestic product price deflator for the second quarter of the prior calendar year. The indexation for the prior tax years was for 50 percent of the inflation change in the implicit price deflator for the gross national product computed for the second quarter of the prior calendar year. The standard deduction amounts for 1996 will be increased to \$1,380 for taxpayers using filing status 1, 3, or 4 and to \$3,400 for taxpayers using filing status 2, 5, or 6. The increases are approximately 1.7 percent from the amounts for 1995, but the increases are affected by rounding of the increased amounts to the nearest ten-dollar amount.

This rule is intended to implement Iowa Code sections 422.4 and 422.21 as amended by 1996 Iowa Acts, Senate File 2449.

**701—38.11(422) Appeals of notices of assessment and notices of denial of taxpayer's refund claims.** A taxpayer may appeal to the director at any time within 60 days from the date of the notice of assessment of tax, additional tax, interest, or penalties. For assessments issued on or after January 1, 1995, if a taxpayer fails to timely appeal a notice of assessment, the taxpayer may pay the entire assessment and file a refund claim within the period provided by law for filing such claims. In addition, a taxpayer may appeal to the director at any time within 60 days from the date of notice from the department denying changes in filing methods, denying refund claims, or denying portions of refund claims. See rule 701—7.8(17A) for information on filing appeals or protests.

This rule is intended to implement Iowa Code sections 421.10 and 422.28 and 1994 Iowa Acts, chapter 1133, section 1.

**701—38.12(422) Indexation of the optional standard deduction for inflation.** Effective for tax years beginning on or after January 1, 1990, the optional standard deduction is indexed or increased by the cumulative standard deduction factor computed by the department of revenue and finance. The cumulative standard deduction factor is the product of the annual standard deduction factor for the 1989 calendar year and all standard deduction factors for subsequent annual calendar years. The annual standard deduction factor is an index, to be determined by the department of revenue and finance by October 15 of the calendar year, which reflects the purchasing power of the dollar as a result of inflation during the fiscal year ending in that calendar year preceding the calendar year for which the annual standard deduction factor is to apply. In determining the annual standard deduction factor for tax years beginning on or after January 1, 1990, but prior to January 1, 1996, the department shall use the annual percentage change, but not less than 0 percent, in the implicit price deflator for the gross national product computed for the second quarter of the calendar year by the Bureau of Economic Analysis of the U.S. Department of Commerce and shall add one-half of that percentage change to 100 percent, rounded to the nearest one-tenth of 1 percent. For tax years beginning on or after January 1, 1996, the department shall use the annual percentage change, but not less than 0 percent, in the gross domestic product price deflator computed for the second quarter of the calendar year by the Bureau of Economic Analysis of the United States Department of Commerce and shall add all of that percentage change to 100 percent, rounded to the nearest one-tenth of 1 percent. The annual standard deduction factor shall not be less than 100 percent.

This rule is intended to implement Iowa Code section 422.4 as amended by 1996 Iowa Acts, Senate File 2449.



**701—38.13(422) Reciprocal tax agreements.** Effective for tax years beginning on or after January 1, 1992, the department of revenue and finance may, when it is cost-efficient, administratively feasible, and of mutual benefit to Iowa and another state, enter into a reciprocal tax agreement with tax administration agencies of the other state. Under this agreement, income earned from personal services in Iowa by residents of the other state will be exempt from Iowa income tax if the other state provides an identical exemption from its state income tax for income earned in the other state from personal services by Iowa residents. For purposes of this rule, “income earned from personal services” includes wages, salaries, commissions, tips, deferred compensation, pensions, and annuities which were earned from personal services in Iowa by a resident of another state that had a reciprocal agreement with Iowa at the time the deferred compensation, pensions, or annuities were earned.

**38.13(1) Reciprocal tax agreement with Illinois.** Pursuant to the authority of Iowa Code subsection 422.8(2), the department of revenue and finance has entered into a reciprocal tax agreement with tax administration officials of Illinois and Iowa in November 1972 and went into effect for taxable years which began after December 31, 1972. The Iowa-Illinois reciprocal tax agreement includes the following terms:

- a. No Illinois or Iowa employer is required to withhold Illinois income tax from compensation paid to an Iowa resident for personal services in Illinois.
- b. No Illinois or Iowa employer is required to withhold Iowa income tax from compensation paid to an Illinois resident for personal services in Iowa.
- c. Every Iowa employer who is subject to the jurisdiction of Illinois is liable to the state of Illinois for withholding of Illinois income tax from compensation paid to Illinois residents.
- d. Every Illinois employer who is subject to the jurisdiction of Iowa is liable to the state of Iowa for the withholding of Iowa income tax from compensation paid to Iowa residents.
- e. The Illinois department of revenue will encourage Illinois employers who are not subject to the jurisdiction of Iowa to withhold and remit Iowa income tax from wages paid to Iowa residents employed in Illinois.
- f. The Iowa department of revenue and finance will encourage Iowa employers who are not subject to the jurisdiction of Illinois to withhold and remit Illinois income tax from compensation paid to Illinois residents from employment in Iowa.
- g. For purposes of the agreement, “compensation” means wages, salaries, commissions, tips, deferred compensation, pensions, and annuities and any other remuneration paid for personal services. In the case of deferred compensation, pensions, and annuities, those incomes are deemed to have been earned at the time of employment. Therefore, if an Illinois resident receives a pension or annuity from employment in Iowa at the time the reciprocal agreement was in effect, the pension or annuity income is not taxable to Iowa since it is “compensation” covered by the reciprocal agreement. “Compensation” does not include unemployment compensation benefits which an Illinois resident receives due to employment in Iowa.
- h. No Iowa resident is required to pay Illinois income tax or file an Illinois return from compensation paid from personal services in Illinois.
- i. No Illinois resident is required to pay Iowa income tax or to file an Iowa return on compensation for personal services in Iowa.
- j. For purposes of the agreement, the term “Iowa resident” means an individual who is a resident under the laws of the state of Iowa, and the term “Illinois resident” means an individual who is a resident as defined in the Illinois Income Tax Act.

**38.13(2) *Reciprocal tax agreements with states other than Illinois.*** The Iowa department of revenue and finance has not entered into reciprocal tax agreements with any state except the state of Illinois. See subrule 38.13(1).

This rule is intended to implement Iowa Code sections 422.8 and 422.15.

**701—38.14(422) Information returns for reporting income payments to the department of revenue and finance.** Effective January 1, 1993, every person, every corporation, or agent of a person or corporation, lessees or mortgagors of real or personal property, fiduciaries, employers, and all officers and employees of the state or of any political subdivision of the state, having control, receipt, custody, or disposal of any of the income items described in subrule 38.14(1), are to file information returns with the department of revenue and finance by the last day of February following the end of the year in which the payments were made. For purposes of this rule, “every person” is every individual who is a resident of this state. For purposes of this rule, “every corporation” includes all corporations who have a place of business in this state. Information about submitting information returns to the department, including submitting the returns on magnetic tape or diskettes, is included in department of revenue and finance publication, “State of Iowa Income Information Return Reporting Guidelines,” which is available from the Taxpayer Services Section, P.O. Box 10457, Des Moines, Iowa 50306, or by telephone at (515)281-3114.

**38.14(1) *Incomes to be included in information returns.*** The entities described in rule 701—38.14(422) are required to file information returns to the department of revenue and finance on income payments of interest (other than interest coupons payable to the bearer), rents, salaries, wages, premiums, annuities, compensation, remunerations, emoluments, unemployment compensation, royalties, patronage dividends, or other fixed or determinable annual or periodic gains, profits, and income to the extent that the amount of income is great enough so that an information return on the income is required to be filed with the Internal Revenue Service (IRS) under provisions of the Internal Revenue Code. However, no reporting is required for state or municipal bonds issued for any political subdivision of this state or for payments of deferred compensation, pensions, and annuities to nonresidents of Iowa. In addition, no reporting is required for any type of income payment where information on the income payment is available to the department from the Internal Revenue Service.

**38.14(2) *Information on income payments available from the Internal Revenue Service.*** The department can obtain information from the Internal Revenue Service on many income payments made to individuals in the tax year, to the extent the income payments were made to residents of Iowa. Therefore, those entities making income payments to nonresidents of Iowa will not be relieved of the responsibility for making information returns to the department on those payments, because of the availability of information on income payments from the IRS. The following is a list of federal reporting forms and the types of information available on those forms from the Internal Revenue Service for residents of Iowa:

- a. 1065 K-1.
  1. Dividends.
  2. Interest.
  3. Tax withheld.
  4. Royalties.
  5. Ordinary income or (loss).
  6. Real estate income or (loss).
  7. Other rental income or (loss).
  8. Other portfolio income or (loss).
  9. Guaranteed payments.

- b.* K-1 1041.
  - 1. Dividends.
  - 2. Interest.
  - 3. Other taxable income or (loss).
  - 4. Tax withheld.
- c.* K-1 1120-S.
  - 1. Dividends.
  - 2. Interest.
  - 3. Tax withheld.
  - 4. Royalties.
  - 5. Ordinary income.
  - 6. Real estate.
  - 7. Other rental.
  - 8. Other portfolio.
- d.* 1099-S.
  - 1. Real estate sales.
- e.* 1099-B.
  - 1. Aggregate profit and loss.
  - 2. Realized profit and loss.
- f.* 1098.
  - 1. Mortgage interest.
- g.* 1099-G.
  - 1. Tax withheld.
  - 2. Taxable grant.
  - 3. Unemployment compensation.
  - 4. Agricultural subsidies.
- h.* 1099-DIV.
  - 1. Dividends.
  - 2. Tax withheld.
  - 3. Capital gains.
  - 4. Cash liquid distribution.
  - 5. Noncash liquid distribution.
  - 6. Investment expense.
  - 7. Ordinary dividends.
- i.* 1099-INT.
  - 1. Interest.
  - 2. Tax withheld.
  - 3. Savings bonds.
  - 4. Interest forfeiture.

This rule is intended to implement Iowa Code section 422.15.

**701—38.15(422) Relief of innocent spouse for substantial understatement of tax attributable to other spouse.** A husband and wife are generally jointly and severally liable for the total tax, penalty, and interest from a joint return or from a return where they file separately on the combined form. However, effective for tax years beginning on or after January 1, 1994, a married person who meets the criteria for an innocent spouse established in Section 6013(e) of the Internal Revenue Code may be relieved of liability for a substantial understatement of tax that is attributable to grossly erroneous items of the other spouse. For purposes of determining if an individual is an innocent spouse for state income tax purposes, the provisions in Section 6013(e) of the Internal Revenue Code will be followed as well as federal court cases, letter rulings, and revenue rulings which deal with innocent spouse. The following are the criteria that must be considered for purposes of determining if an individual is an innocent spouse for Iowa income tax purposes:

1. Substantial understatement of tax attributable to grossly erroneous items of the other spouse. An understatement of the tax is the excess of the tax required to be shown over the tax actually shown on the return. The understatement of tax must be greater than \$500 to be substantial and the understatement must be entirely attributable to grossly erroneous items of one spouse in order for the other spouse to be eligible for status as an innocent spouse. As an innocent spouse the individual will not be liable for the substantial understatement of tax of the other spouse. However, if the understatement of tax is less than \$500 on the Iowa return, and the understatement is attributable to grossly erroneous items of one spouse, the other spouse may be an innocent spouse for Iowa income tax purposes only if that spouse was considered to be an innocent spouse for federal tax purposes. The tax liability attributable to the understatement is computed by adding penalties and interest that accrued by the date of the deficiency notice. Grossly erroneous items may include any omission from gross income such as income from embezzled funds. Grossly erroneous items may also include deductions or Iowa tax credits that are without factual or legal foundation.

2. Filing status for return with an innocent spouse. For state income tax purposes, a married taxpayer filing a return with a spouse can qualify as an innocent spouse only if the taxpayers file a joint return or file separately on the combined return form. A married taxpayer who files a separate state return will not be eligible for innocent spouse status.

3. Innocent spouse must establish lack of knowledge of other spouse's substantial understatement. Innocent spouse relief applies only if the individual claiming to be an innocent spouse can establish that in signing the state return, the individual did not know and had no reason to know that there was a substantial understatement of tax. The innocent spouse's lack of knowledge must exist until the time the return is filed and not just until the end of the year (or period) covered by the return. The U.S. Tax Court has provided that the standard for determining if a taxpayer had reason to know of an omission is whether a reasonable person under the particular circumstances at the time of signing the return could be expected to know of the omission.

In many cases in which innocent spouse relief is sought, the following factors play a role: business background or education of person claiming innocent spouse relief, involvement in family financial affairs by the person claiming innocent spouse relief, involvement in the family business or the transaction giving rise to the understatement by the person claiming innocent spouse relief, whether or not there were lavish or unusual expenditures in the family or increase in standard of living of the family and knowledge of embezzlement activities of the other spouse.

4. Whether or not it would be equitable to hold the innocent spouse for the substantial understatement. Innocent spouse relief applies only if, taking into account all facts and circumstances, it would be inequitable to hold the claimed innocent spouse liable for the deficiency in tax for the taxable year attributable to the substantial understatement. Factors taken into account in determining whether it is inequitable to hold a spouse liable for a tax deficiency include whether the spouse seeking relief has been deserted, divorced, separated, or widowed.

Another important factor in determining equitable treatment for the person claiming innocent spouse relief is whether the person received a benefit attributable to the substantial understatement of taxes. The fact that the spouse received a benefit in the nature of “ordinary support” does not support a finding of significant benefit to deny the spouse relief. In addition, ordinary family support may include maintaining an affluent lifestyle if the standard of living is not enhanced by the tax understatement.

Where the taxpayer participated in the financial affairs of the other spouse and enjoyed the benefits from the activities of the other spouse, innocent spouse relief will not be granted.

This rule is intended to implement Iowa Code section 422.21 as amended by 1994 Iowa Acts, chapter 1165.

**701—38.16(422) Preparation of taxpayers’ returns by department employees.** A department employee can assist a taxpayer in the preparation and completion of the taxpayer’s individual income tax returns and other state tax returns during the employee’s hours of employment for the department in either of the following situations:

1. At the time the department employee is conducting an audit of the taxpayer.
2. When the department employee is requested to prepare a taxpayer’s individual income tax return or other tax returns by the taxpayer, the taxpayer’s spouse, or the taxpayer’s authorized representative.

This rule is intended to implement Iowa Code section 421.17.

**701—38.17(422) Resident determination.** For Iowa individual income tax purposes, an individual is a “resident” if: (1) the individual maintains a permanent place of abode within the state, or (2) the individual is domiciled in the state. An individual who is determined to be a “resident” of Iowa is subject to Iowa income tax on all the individual’s income for the taxable year, no matter whether the income is earned within Iowa or outside of Iowa, except when an item of income is specifically exempted from taxation by a provision of federal or Iowa law.

**38.17(1) Permanent place of abode.** The establishment of a permanent place of abode requires the maintenance of a place of abode over a sufficient period of time to create a well-settled physical connection with a given locality. Significant factors, among others, to be considered in determining whether an individual maintains such a permanent place of abode are: (1) the amount of time the individual spends in the locality; (2) the nature of the individual’s place of abode; (3) the individual’s activities in the locality; and (4) the individual’s intentions with regard to the length and nature of the individual’s stay.

There is a rebuttable presumption that an individual is maintaining a “permanent place of abode” if the individual maintains a place of abode within this state and spends more than 183 days of the tax year within this state. The term “place of abode” includes a house, apartment, condominium, mobile home, or other dwelling place maintained or occupied by the individual whether or not owned or rented by the individual. Situations where presence in the state for 183 days of the tax year may not cause an individual to be considered to be maintaining a “permanent place of abode” would include situations where presence in the state is not voluntary, such as confinement to a correctional facility or an extended hospital stay.

**38.17(2) Domicile.** An individual is “domiciled” in this state if the individual intends to permanently or indefinitely reside in Iowa and intends to return to Iowa whenever the individual may be absent from this state. Individuals who have moved into this state are domiciled in Iowa if the following three elements exist: (1) a definite abandonment of a former domicile; (2) actual removal to, and physical presence in this state; and (3) a bona fide intention to change domicile and to remain in this state permanently or indefinitely. *Julson v. Julson*, 255 Iowa 301, 122 N.W.2d 329, 331 (1963).

Every person has one and only one domicile. Domicile, for purposes of determining when an individual is “domiciled in this state,” is largely a matter of intention which must be freely and voluntarily exercised. The intention to change one’s domicile must be present and fixed and not dependent upon the happening of some future or contingent event. Because it is essentially a matter of intent, precedents are of slight assistance and the determination of the place of domicile depends upon all the facts and circumstances in each case.

Once an individual is domiciled in Iowa, that status is retained until such time as the individual takes positive action to become domiciled in another state or country, relinquishes the rights and privileges of residency in Iowa, and meets the criteria set forth from *Julson v. Julson*, 255 Iowa 301, 122 N.W.2d, 329, 331 (1963). The director may require an individual claiming domicile outside the state of Iowa to provide documentation supporting establishment of another domicile. Absence from the state for 183 days of the tax year or for any other extended period of time does not alone show abandonment of an Iowa domicile.

*a.* There is a rebuttable presumption that an individual is domiciled in Iowa if the individual meets the following factors:

(1) Maintains a residence or place of abode in Iowa, whether owned, rented, or occupied, even if the individual is in Iowa less than 183 days of the tax year, and either

(2) Claims a homestead credit or military tax exemption on a home in Iowa, or

(3) Is registered to vote in Iowa, or

(4) Maintains an Iowa driver’s license, or

(5) Does not reside in an abode in any other state for more days of the tax year than the individual resides in Iowa.

*b.* There is a rebuttable presumption that an individual is not domiciled in Iowa if the individual meets all of the following factors:

(1) Does not claim a homestead credit or military exemption on a home in Iowa,

(2) Is not registered to vote in Iowa,

(3) Does not maintain an Iowa driver’s license,

(4) Is in Iowa less than 183 days of the tax year; and

(5) The individual maintains a place of abode outside of Iowa where the individual resides for at least 183 days of the tax year.

*c.* In addition to the factors listed for the above rebuttable presumptions for “permanent place of abode” or “domicile,” some of the nonexclusive factors to consider in determining whether an individual is a resident of Iowa are as follows:

(1) Maintains a place of abode in Iowa, whether owned, rented, or occupied.

(2) Maintains an Iowa driver’s license.

(3) Maintains active membership in an Iowa church, club, or professional organization and participates as a result of such membership.

(4) Documents, such as tax forms, legal documents, and correspondence, initiated during tax periods, use an Iowa address. Legal documents could include wills, deeds, or other contracts.

(5) Immediate family members residing in Iowa who are claimed as dependents or rely, in whole or in part, on the taxpayer for their support.

(6) Vehicles registered in Iowa.

(7) Location of employment or active participation in a business within Iowa.

(8) Active checking or savings accounts or use of safe deposit boxes located in Iowa.

(9) Claims a benefit on the federal income tax return based upon an Iowa home being the principal place of residence. Examples include mortgage interest on principal residence and travel expenses while away from the principal place of residence.

(10) Receives a number of services in Iowa from doctors, dentists, attorneys, CPAs or other professionals.

Unless shown to the contrary, married persons are presumed to have the same residence. Ordinarily, the residence of a minor is that of the person who has permanent custody over the minor.

An individual may qualify as a part-year resident of Iowa by: (1) not maintaining a permanent place of abode; and (2) not having a domicile in Iowa for the entire tax year. In determining part-year resident status, whether an individual is in or out of Iowa for 183 days may not be a factor.

**38.17(3) *Resident determination for individuals on active duty military service.*** The Soldiers and Sailors Civil Relief Act provides in 50 U.S.C. Appx § 574(1) that members of the armed forces of the United States shall not be deemed to have lost a residence or domicile in any state, solely by being absent from that state in compliance with military or naval orders, or to have acquired a residence or domicile in another state while being absent from the state of residence. Thus, residents of Iowa who enter military service will retain their Iowa residence during the tenure of their military service or until they take positive action to change their state of residence.

Residents of Iowa in military service will have Iowa income tax withheld from their military pay except when the military pay is earned in a combat zone and is totally or partially exempt from both federal and state income tax. An Iowa resident in military service can change state of residence for purposes of withholding of state income tax by completing Form DD2058 and designating a state other than Iowa as the individual's new state of residence. The military payroll officer of the service person will accept the DD2058 form and stop withholding Iowa income tax from the service person's military pay and start withholding the state income tax of the state of new residence of the service person (assuming the new state of residence has an income tax and assuming the new state of residence requires withholding of income tax from wage payments to its residents in military service). However, the completion of the DD2058 form by the "former Iowa resident" will not be considered as a valid change of residence for Iowa income tax purposes unless the service person was physically residing in the new state of residence at the time the DD2058 form was completed and the service person took other actions to show intent to change state of residence. Other actions to show intent to change state of residence would include: (1) registering to vote in the new state; (2) purchasing real property in the new state; (3) titling and registering vehicles in the new state; (4) notifying the state of previous residence of the state of residence change; (5) preparing a new last will and testament which indicates the new residence; and (6) complying with the tax laws of the state of new residence.

Military personnel who are residents of other states and who come to Iowa as a result of military or naval orders, but who later decide to become legal or actual residents of Iowa, or military personnel who purchase residential property in Iowa and claim homestead credits or the military exemption for the property for property tax purposes are presumed to be residents of Iowa for income tax purposes.

Military personnel who are not residents of the state of Iowa and who receive military pay for service in Iowa shall not be considered to have received this income for services performed within Iowa or from sources within Iowa. These nonresidents of Iowa will be taxable on nonmilitary wages for personal services in Iowa they receive while stationed in Iowa. These individuals will also be taxable to Iowa on incomes they receive from businesses, trades, professions, or occupations operated in Iowa during the time they are stationed in Iowa as well as on nonmilitary incomes from any other sources within Iowa.

Although military nonresidents of Iowa cannot be taxed on their military pay while they are stationed in Iowa, the military pay can be considered for purposes of Iowa's taxation of nonresidents. The mere inclusion of military compensation in a formula determining rate of tax on income from state sources does not constitute taxation of military income of a nonresident individual as a violation of 50 U.S.C. Appx § 574(1). *United States v. Kansas* (1987, CA10 Kan) 810 F2d 935.

Spouses of military personnel who earn wages and other incomes from Iowa sources are taxed on these incomes similarly to other nonresidents of Iowa. Spouses of Iowa resident military personnel who were nonresidents of Iowa at the time of the marriages with the Iowa residents will not be considered to be residents of Iowa until they actually reside in Iowa with their husbands or wives.

**38.17(4) Examples of resident determination.**

*a.* Fred and Mary were domiciled in Iowa when Fred retired in 1994. They have a house in Iowa and a condominium in Florida. Prior to 1994, Fred and Mary spent approximately four months in Florida and the remaining eight months in Iowa. Fred owned a small business when he retired and was retained as a consultant and remained a member of the board of directors after retirement. Fred and Mary have friends and family in both Iowa and Florida. They are also involved in the activities of the local country club as well as other civic and service organizations in both locations. When Fred retired, he and Mary decided to spend more time in Florida, especially during the winter months. They usually leave for Florida in late October and return to Iowa in early April. They have transferred their automobile registrations to Florida and they have acquired Florida driver's licenses. They have registered to vote in Florida and have voted in Florida elections. They visit doctors and dentists in both locations as the need arises. They maintain bank accounts in both locations and have mail sent to the location at which they are physically residing. Fred and Mary usually return to Iowa for the Thanksgiving and Christmas holidays and Fred returns once a month to attend board meetings. They do not claim a homestead credit or military tax exemption on their Iowa home, but they do use their Iowa address on most of their legal documents and on their federal tax return. They also travel and vacation during the winter months and oftentimes leave Florida to vacation.

Fred and Mary would be considered Iowa residents because they have retained a permanent abode in Iowa.

*b.* Susan takes an apartment in Des Moines when her employer assigns her to the region office of a large accounting firm for a temporary period. She spends more than 183 days in Iowa, but she returns to her apartment in Ohio once a month to visit her friends and to check her mail. She intends to return to Ohio when her assignment in Des Moines is terminated. She has retained her Ohio driver's license and she is registered to vote in Ohio.

Susan would not be considered to be an Iowa resident because she has not established a "permanent" place of abode in Iowa, even though she is present in Iowa for more than 183 days. Also, she has not had a definite abandonment of her former domicile. Susan would be taxed on her Iowa income as a nonresident. However, if Susan was assigned to Des Moines on a permanent basis, she may be considered an Iowa resident even though she retains her apartment in Ohio.



c. John is an over-the-road truck driver and his job takes him out of Iowa for approximately 240 days a year. He is married and his wife, Mary, lives in Marshalltown, Iowa. His two school-age children attend school in that community and Mary also has a part-time job as a nurse for the neighborhood clinic. John gets home for most weekends and for the holidays. He is registered to vote in Iowa and utilizes the Iowa homestead and military tax exemptions. He does not own any other real property except a lakeside cabin in Minnesota, where the family vacations during the summer.

John would be considered an Iowa resident even though he is not present in the state for more than 183 days because John intends to return to Iowa whenever he is absent and has not taken any steps to establish residency in any other state.

d. Wilber, who is a resident of Idaho, has a heart attack while vacationing in Iowa. He is hospitalized in the University Hospitals in Iowa City. While there, the doctors also discover that he has a rare blood disorder and Wilber is confined to the hospital for nearly nine months, during which time he receives treatment.

Wilber's presence in Iowa is for a medical emergency. When an individual suffers a medical emergency while present in this state for other purposes and cannot be realistically moved from the state or in situations where an individual is confined to an institution as a result of seeking treatment, the time spent in Iowa would not count toward the 183-day rule. Also, Wilber's hospital room would not be considered a permanent place of abode.

e. Chuck and Linda both worked for a major manufacturing company in Iowa and both of them decided to take advantage of an early retirement package offered by their employer. They do not have any children, but Chuck has a brother who lives in Davenport, Iowa, and Linda has a sister who lives in Phoenix, Arizona. After retirement, Chuck and Linda sell their house and purchase a motor home. They spend their time traveling the United States and Canada. They do not have a place of abode in any state as they live in their new vehicle. They do not spend more than 183 days in any state during the year. They retained their Iowa driver's licenses and their motor home is registered in Iowa. They also have bank accounts in both Iowa and Arizona, and they have their mail sent to Chuck's brother as well as Linda's sister. They show Iowa as their state of residence for federal income tax purposes. They are not registered to vote in any state.

Chuck and Linda would be considered residents of Iowa. They have not shown an intention to change domicile and remain in another state permanently or indefinitely.

This rule is effective for tax years beginning on or after January 1, 1995.

This rule is intended to implement Iowa Code sections 422.3, 422.4 and 422.16.

**701—38.18(422) Tax treatment of income repaid in current tax year which had been reported on prior Iowa individual income tax return.** For tax years beginning on or after January 1, 1992, if a taxpayer repays in the current tax year an amount of income that had been reported on the taxpayer's Iowa individual income tax return for a prior year that had been filed with the department and the taxpayer would have been eligible for a tax benefit under similar circumstances under Section 1341 of the Internal Revenue Code, the taxpayer will be eligible for a tax benefit on the Iowa return for the current tax year. The tax benefit will be either the reduced tax on the Iowa return for the current tax year due to the deduction of the repaid income or the reduction in tax on the Iowa return or returns for the prior year(s) due to the exclusion of the repaid income. The reduction in tax from the return for the prior year may be claimed as a refundable credit on the return for the current tax year.

EXAMPLE A: A taxpayer reported \$7,000 in unemployment benefits on the taxpayer's 1994 Iowa return that the taxpayer had received in 1994. In early 1995 the taxpayer was notified that \$4,000 of the unemployment benefits had to be repaid. The benefits were repaid by the end of 1995. The taxpayer claimed a deduction on the 1995 Iowa return for the amount of unemployment benefits repaid during 1995 which had been reported on the taxpayer's 1994 Iowa return as that action gave the taxpayer a greater reduction in Iowa income tax liability than the taxpayer would have received from a reduction in tax on the 1994 return by recomputing the liability by excluding the repaid income.

EXAMPLE B: A taxpayer had received a \$5,000 bonus in 1994 which was reported on the taxpayer's 1994 Iowa return. In 1995 the taxpayer's employer advised the employee that the bonus was awarded in error and to be repaid. The \$5,000 bonus was repaid to the employer by the end of 1995. The taxpayer claimed a credit of \$440 on the 1995 Iowa return for repayment of the bonus in 1995. This represented the reduction in tax for 1994 from recomputing the tax liability for that year without the \$5,000 bonus. This provided the taxpayer a greater tax benefit than the taxpayer would have received from claiming a deduction on the 1995 Iowa return from repayment of the bonus.

This rule is intended to implement Iowa Code section 422.5 as amended by 1996 Iowa Acts, Senate File 2168.

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